

## Exhibit 10-M Standard Audit Program Procedures

Pre-Award Audit  
(Name of Contractor)  
Sample-Audit Program

W/P No: \_\_\_\_\_  
Audit No: \_\_\_\_\_  
Contract No: \_\_\_\_\_  
Auditor: \_\_\_\_\_  
Reviewer: \_\_\_\_\_

ITEM No.		Auditor Init/date	WorkPaper Ref.
<b>I</b>	<b>PURPOSE</b> The purpose of a pre-award evaluation is to provide the approving authority with professional advice on accounting and financial matters and to assist in the award and administration of proposed consultant contracts. It also alerts both the consultant and the approving authority to potential problems relative to the Consultant's basic agreement, cost/price proposal, procurement procedures, or cost accounting system.		
<b>11</b>	<b>SCOPE</b> The examination shall include reviews of applicable laws and regulation, contract requirements, and Contractor's system of internal control. Audit tests of accounting records and such other auditing procedures considered necessary to meet the objectives will be conducted. Applications of audit procedures will be governed by the individual contract under audit.		
<b>111</b>	<b>STANDARDS</b> The audit is to be conducted in accordance with generally accepted governmental auditing standards.		
<b>1V</b>	<b>APPLICABLE RULES AND REGULATIONS</b> 1. Contract Provisions 2. CFR 48, Part 31-Federal Cost Eligibility 3. CFR 49, Part 18-Uniform Administrative Requirements		
<b>V</b>	<b>OBJECTIVES</b> 1. To determine if the consultant agreement specifically provides for the following: <ul style="list-style-type: none"> <li>• specific performance period</li> <li>• three-year record retention period and right to audit.</li> <li>• method of payment.</li> <li>• references to cost principles set forth in CFR 48, Chapter 1, Part 31 for allowability of individual items of cost; CFR 49, Part 18, for administrative procedures; and OMB Circular 1-110, for nonprofit subrecipients.</li> </ul> 2. To determine if the Consultant's cost proposal contains a breakdown of the estimate for performing the work, and that the proposed costs are reasonable in relation to actual historic costs and estimating procedures. 3. To determine if the Consultant's cost accounting system is capable of accumulating and reasonable allocable, and allowable costs		

V1	<p><b>PRELIMINARY AUDITS STEPS</b></p> <ol style="list-style-type: none"> <li>1. Review the proposed contract. <ol style="list-style-type: none"> <li>a. Document your review and note any exceptions needed to be included on the audit report.</li> </ol> </li> <li>2. Review the permanent file. <ol style="list-style-type: none"> <li>a. Ascertain the nature, timing, and extent of the last internal control and accounting system review</li> </ol> </li> <li>3. Review the cost proposal <ol style="list-style-type: none"> <li>a. Determine if the Consultant's cost/price proposal contains a breakdown of the estimate for performing the work.</li> <li>b. Foot and extend cost data. <ol style="list-style-type: none"> <li>a. Obtain missing cost proposal information, if necessary.</li> <li>b. Compare data with permanent file. Obtain updated cost information if necessary</li> </ol> </li> <li>c. Comment on usual amounts unfavorable trends or differences between current and past costs</li> <li>d. Recalculate cost proposal in consideration of any audit exceptions</li> </ol> </li> <li>4. Determine scope of audit. <ol style="list-style-type: none"> <li>a. Omit step 2 (field work) if: <ul style="list-style-type: none"> <li>- a recent audit found the accounting system adequate, and the accounting system is adequate to accumulate and segregate additional contract costs</li> </ul> </li> <li>b. If the accounting system has not recently been reviewed or does not appear to be able to take on additional contract costs discuss the nature timing and extent of audit procedures with superior</li> </ol> </li> <li>5. Prepare preliminary Audit Plan and Time Budget</li> <li>6. Contact the Contract Administrator to inform him/her of the following: <ul style="list-style-type: none"> <li>- Scheduled date of field work</li> <li>- Tentative completion date</li> <li>- Any anticipated problems etc</li> </ul> <p>additional contract costs.</p> <p><b>Note:</b> The Contract Administrator should be kept abreast of all pertinent audit issues. Any problems in obtaining necessary information, etc., should be discussed with him/her immediately and documented in the work papers.</p> </li> </ol>		
V11	<p><b>AUDIT STEPS-FIELD WORK</b></p> <ol style="list-style-type: none"> <li>1. Contact the Contractor and arrange a date for the audit. <ol style="list-style-type: none"> <li>a. Inform the Contractor of the type of information, records, personnel needed, and arrange for work space.</li> <li>b. Request that the Contractor prepare schedules of the calculations of all billing rates such as overhead, fringe benefits, in-house direct cost billing rates, and any other rates used in billing. If possible, have these schedules sent to the auditor for review before the date of field work.</li> <li>c. Inquire whether the Contractor has been audited within the previous year by the DCAA or similar federal agencies, or has had an independent CPA review overhead, internal controls, or project costing systems. If so, obtain a copy of the audit report and/or review working papers for consideration when evaluating internal controls, overhead rates, etc.</li> </ol> </li> </ol>		

	<ul style="list-style-type: none"> <li>- Prepare and send engagement letter to the Contractor to confirm the above discussion. Send a copy of the letter to the Contract Administrator.</li> </ul> <p>2. Conduct an entrance conference with the Consultant to ensure coverage of the following:</p> <ul style="list-style-type: none"> <li>• Purpose, scope and objective of the pre-award evaluation.</li> <li>• Anticipated timeframe of audit fieldwork.</li> <li>• Whether the Consultant is familiar with CFR 48, Chapter 1, Part 31. If not, Consultant can obtain a copy of these regulations at: <a href="http://www.access.gpo.gov/nara/cfr/waisidx_05/48cfr31_05.html">http://www.access.gpo.gov/nara/cfr/waisidx_05/48cfr31_05.html</a>.</li> <li>• Intention to keep Consultant updated on audit progress, and to discuss all audit exceptions prior to issuance of an audit report.</li> <li>• Documentation of the entrance conference in the work papers.</li> </ul> <p><b>V111 CONTROL STRUCTURE SURVEY</b></p> <p>1. Review and evaluate the Contractor's internal control structure.</p> <p>a. Prepare or update a written narrative, flowchart and/or completed internal control questionnaire which adequately describes the accounting system including significant internal controls over contract costs, in order to adequately plan the audit and test the various applications. This understanding should include knowledge of the Contractor's control environment, accounting system and control procedures. Generally, the relevant policies and procedures pertain to a Contractor's ability to record, process, summarize, and report contract and financial information ;and to ensure compliance with applicable laws and regulations.</p> <p>b. Selectively examine (test) the accounting records and underlying source documents only to the extent necessary; to determine if the system has the ability to accumulate and segregate reasonable, allocable, and allowable costs through the use of a cost accounting system. The following are some of the attributes which should ideally be found in such a system:</p> <ul style="list-style-type: none"> <li>• Chart of accounts (direct and indirect accounts).</li> <li>• Segregation of costs by contract, category of cost and milestone (if applicable).</li> <li>• Proper recording of direct and indirect costs. For example, separate accounts should be used for direct labor, indirect labor, vacation, holiday, sick leave, etc.</li> <li>• Consistent accounting treatment of costs in recording and reporting.</li> <li>• Ability to trace from invoices billed to job cost records and original, approved source documents to the general ledger.</li> </ul> <p>2. Prepare a summary of the internal control structure and cost accounting system. The summary should include or reference to a control risk assessment and a finalized Audit Planning document.</p> <p>3. Evaluation of cost/price data.</p> <p>a. Obtain source documents and/or other criteria used to establish the cost/price proposal.</p>		
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	<ol style="list-style-type: none"> <li>4. Evaluate the propriety of direct labor costs. <ol style="list-style-type: none"> <li>a. Select a representative sample of employee timesheets (cards) and test the hourly extension.</li> <li>b. Trace hours to the payroll journal and compare hourly rates paid to the rates submitted with the cost/price proposal.</li> <li>c. If applicable, compare proposed direct labor rates to prevailing wage and union labor rates.</li> <li>d. If overtime is proposed, does the Consultant have procedures to ensure and document equitable overtime charges to government and nongovernment contracts?</li> <li>e. Prepare a labor rate analysis and comment on variances.</li> </ol> </li> <li>5. Analyze indirect cost rates (fringe benefits, overhead, general and administrative). <ol style="list-style-type: none"> <li>a. Request written verification of an approved overhead rate, if available (DCAA or other qualified entity).</li> <li>b. Obtain a written breakdown /schedule of costs included in the rates. <ul style="list-style-type: none"> <li>• Trace the indirect rate schedule to the general ledger.</li> <li>• Scan the indirect cost accounts in the general ledger for unallowable costs.</li> <li>• Test the Consultant's proposed rate, by comparing the individual items of cost for allowability and fair presentation with CFR 48, Chapter 1, Part 31.</li> </ul> </li> <li>c. Schedule all disallowed costs.</li> <li>d. Recalculate the overhead rate and comment on variances.</li> </ol> </li> <li>6. Evaluate the propriety of other direct costs (materials, transportation, equipment, per diem, etc.) and Subcontractors. <ol style="list-style-type: none"> <li>a. Determine the methods used to establish the cost of materials, transportation, and per diems, etc.</li> <li>b. Compare proposed rates, or costs with prevailing rates, or past experiences.</li> <li>c. Determine if direct costs are independent from the indirect cost pool.</li> <li>d. Schedule all costs which do not appear to meet the criteria established in CFR 48, Chapter 1, Subpart 31.2.</li> </ol> </li> <li>7. Evaluate the proposed fixed fee. <p>As field work progresses, keep the Controller or other contact person aware of the findings or problems, as they arise. Resolve the matters if possible. Document these conversations in the work papers.</p> </li> <li>8. Evaluate the Contractor's financial capability – Ratio Analysis.</li> <li>9. Prior to completion of field work, discuss all exceptions with the consultant ensuring coverage of: <ul style="list-style-type: none"> <li>• scope and objectives of the pre-award audit</li> <li>• the condition, criteria, cause, effect, and recommendation for each exception noted.</li> </ul> </li> </ol>		
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IX	<p>• Caltrans' review process and reporting procedures.</p> <p>• any questions, the Consultant may have.</p> <p>10. Obtain a management representation letter.</p> <p><b>COMPLETION</b></p> <ol style="list-style-type: none"> <li>1. Complete work papers to assure that they are properly headed, indexed, signed, dated, and cross-referenced. In addition, each work paper should include, or be reference to, a statement of purpose, source, analysis and conclusion.</li> <li>2. Prepare an audit summary which documents the purpose, objectives, procedures, results/conclusions and recommendations.</li> <li>3. Cross-reference all exceptions to the appropriate papers.</li> <li>4. Prepare draft audit report.</li> <li>5. If necessary, schedule a closeout conference with the Consultant to discuss any exceptions not discussed, or resolved as of completion of fieldwork. Also, if material findings are identified, the Contract Administrator should also be contacted. Document these conversation/conferences.</li> <li>6. Complete audit assignment card.</li> <li>7. Update the permanent file.</li> <li>8. Submit completed work papers and draft audit report to supervisor for final review.</li> <li>9. Prepare final report and distribute as follows: <ul style="list-style-type: none"> <li>• Original – Requester</li> <li>• If Requester is headquarters, then: 1 copy- Headquarters Contract Office</li> <li>• If Requester is District, then: 1 copy - District Contract Officer or District Consultant Services or DLAE</li> <li>• 1 copy - Audit file (Section B)</li> <li>• 1 copy - Chronological File (Audit Reports Binder)</li> <li>• 1 copy - P# File (Audit Reports Binder)</li> <li>• 1 copy -Audit Office</li> <li>• 1 copy – Supervisor</li> </ul> </li> </ol> <p><b>Note:</b> A “cc” notation is needed on the final report for reports distributed outside of the Audits Office.</p>		
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